addition to the revenue from these lines, especially/during as the next few years, the expenditure on the revenue account o of the lines will be heavy owing to the need for repairs and renewals deferred during the war. The lines worked by us will being in more revenue but this improvement has been --- taken into account as an annual growth of Rs.2 lakhs has already been included in the calculation. As for the electrical works, the full revenue from the Sixth Installation has, as stated above, been taken into account in the s forecast and the improvement in the revenue of this department dur to additional lighting and power installations in Bangalore and Mysore cities is not ~~big~~ likely to be very large. Apart fro these four works, there are no other big productive concerns which can give us ~~any large~~ additional revenue. It will be seen from what is stated above, that the only additional rev nue that may be anticipated from productive concerns is --- about Rs.5 lakhs from the Iron works. The assumption that future revenue from investment on productive works will wip out the deficits proposed to be permitted is not therefore warranted by the prospects of such investments.

Allowing present deficits anticipating future growth of ordinary revenue considered.

21. It may perhaps be argued that if the produtive works will not bring in enough revenue in the future for covering the proposed deficit there will be the growth of other items of revenue and that on the strength of such growth the proposed deficit may be permitted. I shall now examine this --- argument. What the annual growth of revenue from 1923-24 is likely to be, it is now not easy to forecast. If we may --- assume that revenue will continue to grow on the scale assumed for the triennium ending with 1922-23 and if we can also feel confident that an annual revenue of about Rs.5 lakhs in additionto Rs.3 lakhs already included in the calculation can be obtained from the Iron Works from 1923-24, it will take 6 or 7 years from 1923-24 for the growth of revenue ~~to come up~~ to be adequate for wiping out the deficit reached in --- 1922-23 and that result can be attained only by not permit

permitting additional expenditure of even a single rupee during the whole of 6 or 7 years, an arrangement which it is simply impossible in practice. If the growth of expenditure can be effectively prevented in that long period from 1923-24, it should be equally practicable even now. It is financially most unsound to assume that what, as a matter of fact, is found impossible now will become possible hereafter. Conditions affecting both revenue and expenditure are bound to vary largely in the far future very and prospective revenue can never be relied on for allowing an immediate increase in the present standard of permanent expenditure over the present level of revenue.

Future revenue required for future expenditure.

22. Apart from the above considerations, whatever additional revenue it may be possible to obtain in the future is certain to be required for meeting the needs of the administration at the time and it is unsound to anticipate such revenue and spend it now. If reduction in expenditure results in a set back to present administration, anticipatin future revenue and spending it before it is realised, is a handicap to future administration and it is not right --- either from the financial or the administrative point of view to provide for a present period of activity of administration at the cost of enforced stagnation of administrative activity for a long period, in the future. These considerations also lead to the same conclusion that expenditure --- should at no time exceed the revenue which is available then If it is an axiom of public finance that more money than is needed at any time for administration should not be raised, it is equally an axiom that less revenue than is required for meeting the expenditure held to be actually necessary at any time should not be considered sufficient, in the --- expectation of prospective revenue, the realization of which is necessarily subject to all the uncertainties incidental to all forecasts about the future. A reassuring condition of

of deficits is as much to be avoided as that of surpluses.

No windfalls expected. Improvements due to premium on gold and to decline in exchange temporary.

23. In the calculation of improvement of revenue, I have not taken into account any windfalls. I do not think there are any such large items of unforeseen revenue on which we can count. Any windfall is, by its nature, a temporary resource and it cannot be a factor in the calculation of permanent revenues and of the permanent demand upon them. So long as gold continues to command a premium compared with its normal mint parity and so long also as the rate of exchange is below 2 shillings, we shall get some additional revenue from Gold Royalty, from Electric power supplied to the Mines, and from the sale proceeds of sandal oil realised in sterling. The Government of India appear to be determined to maintain the exchange value of the rupee at 2s. after the present abnormal conditions cease to operate and only recently the Secretary of State stated in reply to a question put to him in Parliament that he would not reconsider the decision already given effect to in the form of legislation for stabilising the exchange value of the rupee at 2 shillings. If the Government of India succeed in their attempt, as they appear to be hopeful of doing, in establishing stability at 2s, and if the market oscillations are only in the neighbourhood of this rate, we can only expect to realise about Rs.10 for our sterling revenues and the premium on gold may also go and with it, the temporary additional revenue from Gold Royalty. The additional revenue from Royalty and from the lower rate of exchange obtained in the meantime can only be looked upon as of the nature of a windfall, not available as a set off against a recurring deficit.

C.& M.Station surplus an uncertain element in Forecast.

24. The estimate of revenue anticipates an annual surplus of Rs.5 lakhs from the Civil & Military Station. The Government of India have reopened the question of our right to this revenue and it is not known how it will be

be finally decided. In any case, the amount that we may expect from this source will continue to be uncertain as it will naturally depend upon how much will be saved annually by the authorities of the Civil & Military Station to be handed over to us, and the temptation to reduce the surplus must, of course be assumed to be strong.

Conclusion and Suggestions.

25. I have carefully considered the subject in all its aspects and I have come to the following conclusion:-

The existing deficit must be wiped out and it should under no circumstances, be permitted to grow.

It is absolutely necessary that immediate steps should be taken to effect all possible reductions in optional avoidable and deferrable items of expenditure. Departmental budgets require the closest scrutiny with the deliberate object of reducing their size by eliminating all possible items. It should be realised that reduction of expenditure is inevitable for financial stability, that the reduction should be as large as possible and that accordingly all --- departments should contribute their share to the reduction.

re may, if criterion tion is possi- ixed at the which the the high price e has involved. re is no sur- enue for giv- allowance, it natural that rtments should the amount re- or its grant by n of their exist- nditure. An inter- justment of each ntal budget is le when additional ntal expenditure therwise be finan- effecting such n, the Heads of nts should take ll responsibility omise to the ex- uired within a period, say in 2 months so that dget estimates of ure for the next y be well within urrent year's proceeding for these Pres allowance as well.

Vigourous measures are urgently called for to increase the sources of revenue capable of improvement. The Land Revenue re-settlement operations are heavily in arrears. The rates of assessment are in many cases very low especially in regard to dry lands in some parts of the State and the large rise in the prices of agricultural produce has made the existing scale of land tax very light. Urgent measures are necessary to expedite resettlement operations and the revision of assessment should aim at obtaining a substantial addition to public revenues. If the revision of overdue settlements cannot go on expeditiously owing to the dilatory traditional procedure of the operations it is necessary to improvise some prompt means of resettlement. The number of cases to be dealt with is very large, and the adoption of the existing procedure is bound to involve delay and the need for simplifying and quickening it is thus very great.

The revenue from Stamps and Forests, are, I believe, capable of expansion and it is necessary to require the --- authorities concerned to take vigourous steps to show definite results.

Some use for the water in the Krishnarajasagara Reservoir has to be found as early as possible and the very proper return obtained from the heavy capital outlay on it. In my note dated 5th September 1919 on the proposal to largely enhance the estimate for the Reservoir ~~on 5th September 1919~~, I pointed out the urgent need for making the investment pay its full return as early as possible and I do not know what orders have been passed on it. The work has been financed from borrowe funds and the loss on it is now a burden on the revenue --- account and has contributed to create the deficit now under consideration. Endeavours have also to be made for obtaining an appreciable revenue from the Vani Vilas Sagara.

It is necessary to investigate if the rates charged for electric power do not admit of enhancement in cases in which existing contracts have not guaranteed particular rat s for definite periods. Even in cases in which the present contracts do not permit of increasing the rates, it is nece sary to instruct the Electrical Department to raise them when the contracts are due for renewal.

It is also necessary to carefully examine whether al the revenue realizable from even existing sources is being actually realised and quite recently I happened to notice an instance in which and easily realisable additional revenue from suchs a source remained unnoticed for 16 years.) refer to the tariff for calculation of Excise duty on cotton manufactures and ~~of cotton excise duty~~ for the revision of ~~which~~ the tariff I have recently sent up a ~~pro osal~~ note and the ~~revisio~~ proposal will yield nearly one lakh of rupees per annum.

The rate of interest has gone up and the rates we charge on the different kinds of loan are low and I have lately made a proposal for revising them.

The dominating aim of the financial policy which the

situation

situation demands now and in the near future is to retrench: his method is, all possible means and to reduce, with the least delay possible, the annual contributions to the reserves, so essential to financial stability. All other considerations should be subordinated to this imperative necessity. Such policy cannot, however, be carried out unless due weight and consideration are given to financial opinion.

In the circumstances explained above, I must state respectfully that I cannot agree to the financial policy proposed in the Council Resolution. I feel it my duty to emphatically express my opinion against the adoption of such policy. I have considered it necessary to note at length on all the important aspects of the proposed step so that ~~the consequences of~~ all the consequences of adopting the policy may be fully appreciated before the final decision is taken.

I be, that my representation may kindly be submitted for the gracious consideration of His Highness.

19.1.21